

MBA

Do the financial benefits of an MBA outweigh the costs?

Weighing the outlay in time and money against the rewards



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JANUARY 29, 2017 by: **Della Bradshaw**

Matt Bulloch had already set up his company, TentCraft, when he decided to apply to study for an MBA at [Stanford Graduate School of Business \(http://rankings.ft.com/businessschoolrankings/stanford-university-gsb\)](http://rankings.ft.com/businessschoolrankings/stanford-university-gsb), the California institution renowned for creating entrepreneurs.

At the time he was toying with the idea of leaving the world of promotional tents for consumer electronics, but realised after completing an internship with Apple that consumer electronics was not for him. “It took me taking a step back from my company to realise what I had,” he says.

Yet Bulloch has no regrets about investing the time and money needed to get a Stanford MBA — on average students on the Stanford programme can expect to pay more than \$218,000 to study for two years at the school, and to forgo \$200,000 in lost earnings.

“I was inspired to grow my business faster, which is what I have done,” he says, noting that when he started his degree five years ago TentCraft had 15 employees; today it has 85.

But as well as the classes, it was networking that really paid off, he says, bringing more than just an address book of good friends. “One of my classmates is one of our biggest customers,” he points out, and revenues from that one client covered the costs of the degree.



Unexpected benefits: Matt Bulloch found his Stanford MBA inspired him to grow his business faster

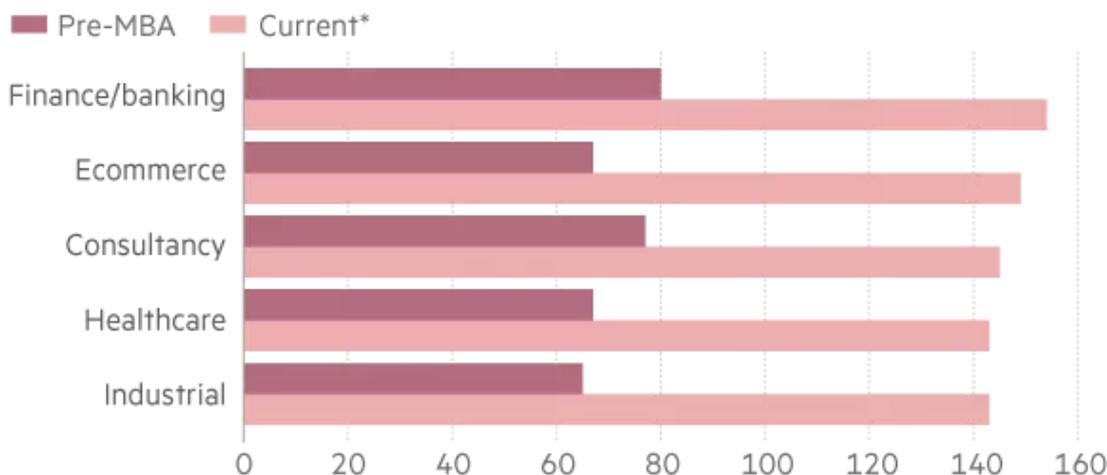
Fees and living costs are more than \$100,000 a year at a top US programme such as Harvard in Boston, nearby MIT Sloan or Wharton in Pennsylvania. For many of those thinking about a full-time MBA, money will be one of the biggest considerations, including the opportunity cost of leaving the workplace for one or two years. Potential future earnings will be critical.

For those who graduated in 2013 and who responded to the FT alumni survey, increased earnings were as important as management skills as a reason for studying for an MBA. For most, the outlook is rosy.

On average, those who studied on one of the world's top 100 MBA programmes doubled their pre-MBA salaries within three years of graduation, though salary figures vary enormously.

Average salaries

\$'000



* Class of 2013, three years after graduation

Source: FT 2017 ranking of top 100 MBA programmes

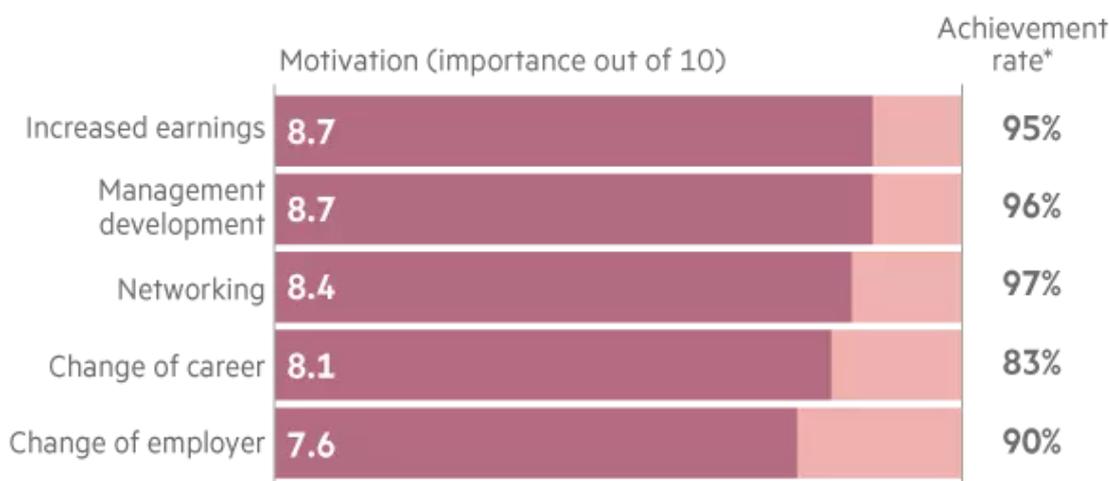
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Average salaries © FT 2017 ranking of top 100 MBA programmes

Alumni from Bulloch’s alma mater, Stanford, second in the 2017 ranking, report that although they gave up salaries of more than \$100,000, on average, to take the MBA, three years after graduation they now earn close to \$200,000.

By comparison, alumni from [Tippie College of Business in Iowa \(http://rankings.ft.com/businessschoolrankings/university-of-iowa-tippie\)](http://rankings.ft.com/businessschoolrankings/university-of-iowa-tippie), ranked 84th, report that they now earn a little more than \$100,000 — the starting point for Stanford candidates, yet for Tippie alumni an increase of 130 per cent on their pre-MBA salaries of just five years ago, which were on average more than \$45,000.

Aims achieved



* Class of 2013, three years after graduation

Source: FT 2017 ranking of top 100 MBA programmes

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MBA Aims achieved © FT 2017 ranking of top 100 MBA programmes

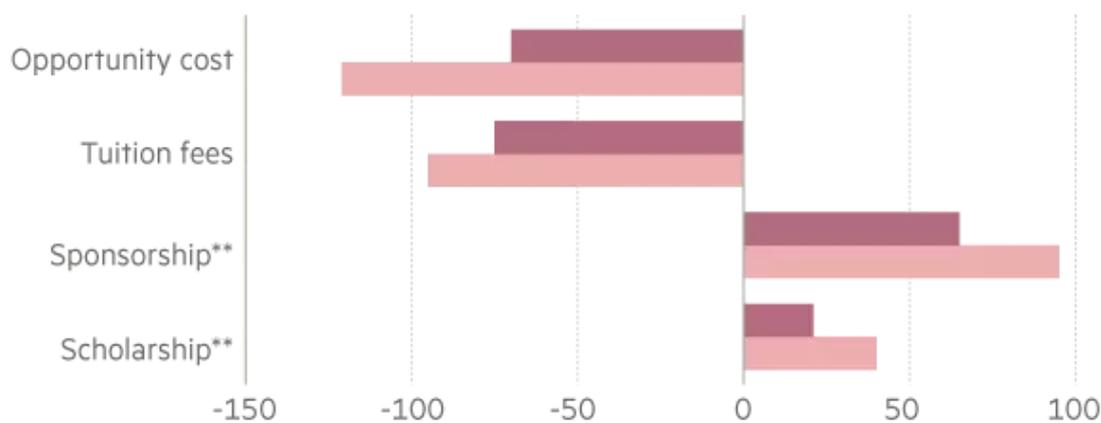
In spite of the large salary rises enjoyed by MBA graduates, it is often a change in job sector or a rapid promotion that spurs many managers to apply for an MBA, says David Deyak, assistant dean at Tippie. He points out that about two-thirds of applicants are looking for a career change. “The return on investment is part of the discussion, but students lead with ‘can you help me achieve my dreams’,” he says.

Kyle Bogler worked in the US in operations management in a logistics company before returning to Tippie for his MBA in 2011. Today, he works in internal audit in a garment company in Hong Kong, having achieved the “triple hit” of changing job, sector and country often craved by MBA students.

MBA costs and financial help*

\$'000

■ 1-year MBA ■ 2-year MBA



* Class of 2013 ** Recipients only

Source: FT 2017 ranking of top 100 MBA programmes

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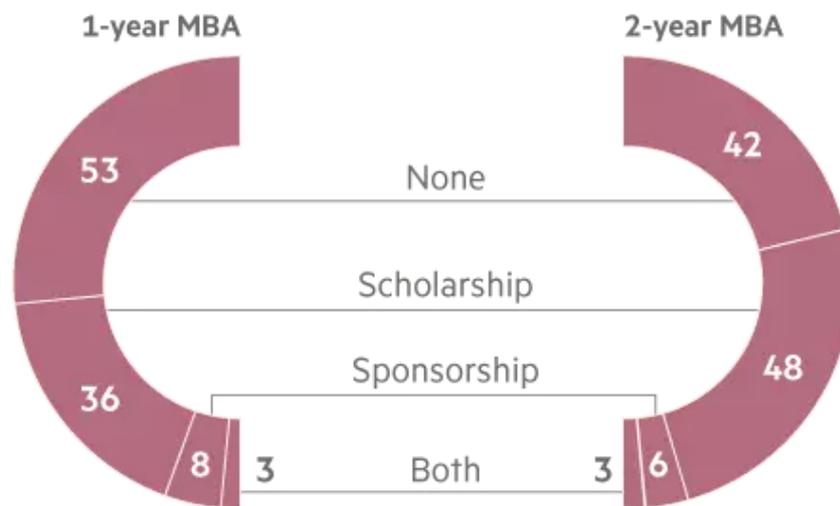
MBA costs and financial help © FT 2017 ranking of top 100 MBA programmes

“It set me back \$60,000 and two years of salary but I am now on a full expat package in Hong Kong,” says Bogler. He believes the MBA helped him get his job five to 10 years sooner than he would have done without it.

“I got my job by sticking out my hand and networking,” he says, a skill he admits he did not have before his MBA. “To me that is worth its weight in gold.”

Financial help breakdown*

Per cent



* Class of 2013

Source: FT 2017 ranking of top 100 MBA programmes

Financial help breakdown © FT 2017 ranking of top 100 MBA programmes

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It is a view shared by many of the respondents to the 2017 FT MBA ranking survey, who listed networking as among the top three reasons for joining an MBA programme.

“Both the value and the cost [of an MBA] are more than monetary,” says Yossi Feinberg, senior associate dean for academic affairs at Stanford.

He notes that the opportunity cost of an MBA can also include missing out on the latest developments in a fast-moving industry, such as technology, and the resulting uncertainty that brings.

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Such concerns have led to many students deciding on shorter one-year programmes, says Virginie Fougea, admissions director at [Insead \(http://rankings.ft.com/businessschoolrankings/insead\)](http://rankings.ft.com/businessschoolrankings/insead), the world’s highest-ranked one-year MBA.

In 2016, applications for one-year MBAs increased at 57 per cent of the schools that offer them worldwide, according to the latest figures from the Graduate Management Admission Council, the owner and administrator of the GMAT admission exam.

Those studying on two-year degrees are more likely to receive scholarships — 48 per cent of those who took two-year degrees and responded to the FT survey received such funding compared with 36 per cent of

their peers on one-year degrees. However, the shorter programmes still offer greater value for money. Only five of the best value for money MBAs in the 2017 ranking are two-year programmes.

Even so, Fougéa says value for money is not central to the decision-making process. “The cost is factored in but it is not one of the first elements.”

Both the value and the cost are more than monetary
Prof Yossi Feinberg, Stanford GSB

For Mike Abare, an American Insead alumnus from the class of 2013, it was the international nature of the programme that was the particular attraction.

Following a US undergraduate degree, “I really wanted to experience Asia,” he explains. He studied

on Insead’s Singapore campus and is now back in the US with plans to work for the FBI.

Carlos García Pont, director of the MBA programme at [Iese Business School \(http://rankings.ft.com/businessschoolrankings/iese-business-school\)](http://rankings.ft.com/businessschoolrankings/iese-business-school) in Barcelona, one of the few European business schools that run a two-year MBA programme, says that those who choose a two-year degree do so for specific reasons. A one-year programme will suit those who already know what they want to do, he says. “What we’re trying to do is open windows into their lives, so they can learn to know what they don’t know.”

Demand is growing at Iese, which in 2016 added a fifth section of 70 students to its programme.

Betsy Ziegler, chief innovation officer at the [Kellogg School at Northwestern University \(http://rankings.ft.com/businessschoolrankings/northwestern-university-kellogg\)](http://rankings.ft.com/businessschoolrankings/northwestern-university-kellogg) in Illinois, which runs a traditional two-year MBA and a shorter programme without a summer internship, says the accelerated programme is geared to those who are returning to their companies or going into an industry such as management consultancy, which requires no internship.

“The hard one is moving from general management into finance; finance requires an internship,” she adds.



Geared up: Betsy Ziegler, the Kellogg School's chief innovation officer, says its accelerated programme is for those returning to their companies

While time is a greater consideration than cost for most who apply for MBA programmes, all agree that applicants are a self-selecting group and many young managers will opt not to even apply for an MBA because of the cost. “The big issue is awareness. How do we influence the funnel, not just accept it?” asks Prof Feinberg. If applications to two-year degrees fall, it will be a question more and more business schools will have to ask.

See *Communities* (<http://next.ft.com/content/6cec31d4-d9b6-11e6-944b-e7eb37a6aa8e>):
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